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Joint Costs in Meat Retailing

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"Joint Costs in Meat Retailing"

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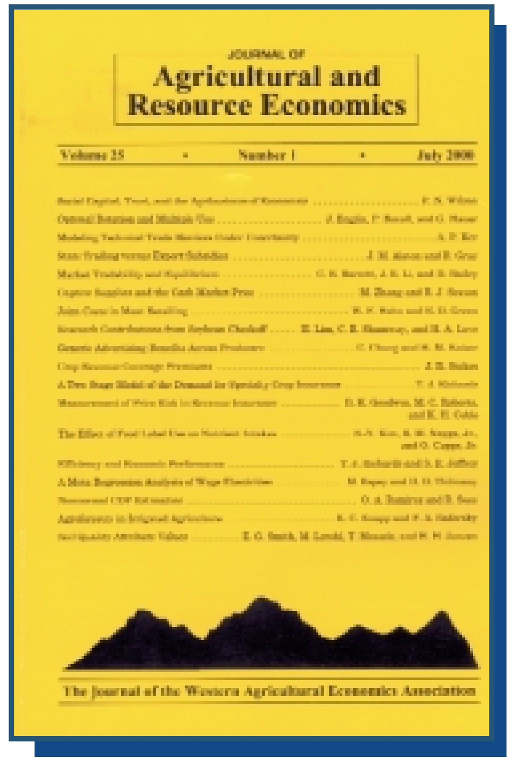
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Livestock producers and meat consumers are often concerned about meat-marketing margins, or wholesale-retail price spreads. Between 1995 and 2000, the wholesale-retail price spread accounted for between 40 and 44 percent of the retail price of beef, and between 50 and 60 percent of the retail pork price. Lower margins can imply higher prices for farmers and/or lower prices for consumers. This study provides a better understanding of how wholesale prices, retail prices, and wholesale quantities interact in setting margins for beef, pork, and chicken. Study results found that the marketing margin for each meat type depended on its own sales and on the sales of other meats. Increasing sales of pork and chicken tended to lower the wholesale-retail price spread for beef. These "cross" effects were small, however. Increasing beef sales had similar small effects on the wholesale-retail price spreads for pork and chicken. This type of price-quantity interaction implies that in the retail stores, the average cost of selling any one product, beef, pork, or chicken, increases with increasing sales, exhibiting "decreasing returns to scale." However, increasing the sales of all three meat types by the same percentage tends to keep the average costs of running the meat department the same, exhibiting "constant returns to scale." When one looks at the costs of selling a single type of meat, it appears that grocery stores have decreasing returns to scale, but when one looks at the entire meat department, it appears that the store works with constant returns to scale.